29 May 2012

Ms Julie Owens MP
Chair House of Representatives Standing Committee on Economics
Parliament House
Canberra ACT 2600

E-mail: economics.reps@aph.gov.au

Dear Ms Owens

Income Tax (Managed Investment Trust Withholding Tax) Amendment Bill 2012

Thank you for the opportunity to provide our comments on the proposal to increase the withholding tax ("WHT") on managed investment trusts from 7.5 percent to 15 percent.

Introduction

Since the Government's announcement in the 2008-09 Budget, the current 7.5 percent WHT rate has:

- attracted much needed equity capital to Australia;
- helped underpin Australia's economic growth by supporting investments in critical infrastructure, a clean energy future and jobs in the construction sector;
- enhanced Australia's international reputation as a premier investment destination;
- supported the Government's objective of building Australia's role as a financial service hub; and,
- increased Australia's economic resilience.

The decision to double the WHT undermines these important policy objectives and we believe Australia's economic interests.

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1. The moderate WHT attracted quality equity capital to Australia

In a highly competitive market for international finance, global investors carefully consider where each investment dollar is placed. Even small changes in policy can materially impact the competitive advantage of investing in Australia.

International investment increased fivefold following the WHT cuts. The 7.5 percent WHT attracted the world's leading pension and sovereign wealth funds to Australia – more than 82% of new global investment flowed from respected institutional investors.

As a result of the Government's Budget announcement some investors are already reconsidering capital allocations and others have decided not to proceed with some deals altogether.

A billion dollars of investment funds have already left the country or been frozen in just the last fortnight.

2 The moderate WHT has been good for economic growth, supporting investment in critical infrastructure, a clean energy future and jobs in the construction sector

While the moderate WHT has come at a direct cost to taxpayers, we believe the higher levels of investment it has enabled have increased economic activity and the broader tax base by a significantly greater amount, thus delivering a net benefit to Australia.

The priority for investors attracted by the moderate WHT has been high grade buildings with strong green credentials.

The moderate WHT also boosted funding for major social infrastructure, including low carbon and renewable energy projects.

As a result, funding in critical infrastructure has enhanced the efficiency and productivity of the Australian economy, helping to address key bottlenecks to economic growth.

The moderate WHT has also underpinned commercial property construction at a time of market fragility, supporting jobs in this key sector.

At the same time, the moderate WHT has reduced funding costs for governments.

Several state and local governments, often supported through Commonwealth funding, have sought international capital to help pay for critical community infrastructure.

Regrettably, a high WHT rate is likely to see some deals fail at a cost to productivity and economic activity.

More commonly, high funding costs will be transferred to the Commonwealth and cash-strapped state and local governments as the ultimate funders of much needed infrastructure.

3. The moderate WHT enhanced Australia's international reputation as a premier investment destination

In recent years, Australia has rightly acquired a valuable reputation as a premier investment destination.

The decision to double the WHT came as a surprise to investors and international markets. It is inconsistent with the Government's often stated and to date well regarded policy objectives.

Many investors would also have structured existing transactions differently had they known that the rate of WHT would increase. Given the cost of re-structuring these investments, they will now be effectively trapped in more highly taxed arrangements.

For long run-investments, like infrastructure and commercial property, stable and predictable policy settings are essential if Australia is to continue to remain a premier investment destination.

4. The moderate WHT supported Australia's objective to be a regional financial hub

Australia has become an attractive investment destination in large part due to the Government's funds management hub strategy, which has been strongly backed by both the Australian and international investment communities.

Increased investment activity, on the back of the moderate WHT, underpinned stable local property market values despite an exodus of foreign banks.

Australia is a small market. It needs a competitive rate to attract capital.

Doubling the WHT to 15 percent, places Australia at the higher-end of the WHT rate pack and is not competitive enough.

5. The moderate WHT has decreased Australia's reliance on foreign debt and increased economic resilience

Finally, by reducing the cost of equity to invest in Australia, the moderate WHT decreased Australia's reliance on fragile and volatile foreign debt markets.

Equity, in particular long-term patient investment, is at a premium in international markets. Australia's continued ability to attract high quality equity investors is envied by many around the world.

Given unstable European markets and slowing Asian economies, we believe it is a particularly bad time for Australia to make equity investments less attractive and to increase reliance on foreign lenders.

Conclusion

Accordingly, we request the Government reconsider its plan to increase the WHT and, instead, restore its earlier commitment to a 7.5 percent rate.

We believe that it is in Australia's economic interest to do so and will reinforce Australia's reputation as a premier destination for international equity investment.

Yours sincerely,

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